

### Testimony

As always, it is a privilege to be able to present my views to this distinguished Committee on a matter of great national importance. As we are all aware, the turnover of the Panama Canal is imminent and there are a number of critical issues facing both Panama and the United States. First and foremost is the security and continued operation of the Canal. But closely related to this problem is the economic well-being of Panama, which has been called into question a number of times over the past twenty years since the signing of the Carter-Torrijos Treaties. As a matter of fact, the money laundering problems associated with the regime of Tony Noriega was one of the triggering events leading up to the invasion of Panama by the United States in the operation "Just Cause". During this period, there were over one hundred banks operating in Panama and one had to go down the list to number 15 before one found a Panamanian bank guilty of money laundering. The top fifteen included a number of United States banks, which were subsequently indicted when all the records were made available. A number of senior managers were incarcerated. The intimate involvement of the Panamanian Government and the private sector in money laundering for the various drug cartels, as well as other illegal activities, is a matter of public record and is a matter of serious concern to the governments of this hemisphere and of Europe.

Following "Just Cause", the United States, in a clumsy ham-handed manner, forced the Panamanian Government led by President Endara to sign the MLAT Treaty in order to clean up the money laundering problem. My Panamanian friends tell me that new technologies and half-hearted enforcement by both the United States and Panama have largely negated the intended effect of the treaty. I was in Panama at the time, attempting to make a commercial success out of what had been Noriega's airline, Air Panama. Air Panama was recapitalized and named Panama Air with both American and Panamanian investors and management. It was at this time that I first become aware of the extent and depth of the corruption in both the public and the private sector. A fact sheet outlining the Panama Air problem is attached. I would request that this be made a part of my testimony.

In my opinion, we are witnessing the workings of the "overworld" as so aptly described by Ambassador David Jordan in his brilliant book, "Drug Politics". The Panamanian infrastructure, including the banking system, has been used to connect with the "underworld". One of the questions raised concerns the financial operation of the Canal. Will the rates be raised? If so, how much. As 40% of all the grain produced in this country transits the Canal, this is a critical question. As 15% of everything produced in the United States goes through the Canal, the stakes are even higher. Now consider that in addition to these numbers, the "dry canal" does not have the available capacity to take up the slack should the Canal be closed for whatever reason. The United States Congress has every reason to be concerned. It is obvious that the Clinton Administration is not interested in these "politically incorrect" questions.

The performance of the Pérez-Balladares government requires some examination. That government has a less than glowing track record when it comes to fiduciary and management responsibility. As a matter of fact, the obvious corruption and failure to act responsibly resulted in the Panamanian electorate turning down "Toro's" attempt to change the constitution so that he could have another term at the "trough". His shady handling of the properties that the United States had turned over to Panama, the packing of the Panama Canal Commission with his family and cronies, as well as the granting of visas to Chinese Mainland nationals has been a matter of daily scandal in Panama. Unfortunately, the mainstream media in the United States has opted to "spike" these stories so that the American people remain largely uninformed.

There has been some hope expressed by many in the United States that the new government of Mireya Moscoso will be able to correct this situation. There are some facts that should be recognized as we examine this critical national security issue. First of all is the domestic political situation in Panama. Moscoso is operating from a very narrow political base, with the PRD very much in control of much of the legislative and judicial apparatus. Second is the fact that the private sector is very much involved in activities that mitigate against a "crusade" to clean up related drug and illegal activities surrounding the free zone at Colon. How much the President will be able to do, assuming that there is the will, is a major question. As they say in Spanish, "Vamos a ver". We'll see.

## FACT SHEET

### PANAMA AIR INTERNATIONAL (PAI)

April 1990: Following *Just Cause* and the capture/ouster of Manuel Noriega, a group of United States investors led by General Gordon Sumner, former Ambassador at Large for Latin America, traveled to Panama to explore opportunities to privatize various government owned entities. While in Panama the group was hosted at a breakfast meeting of *ANDE*, a business development group chaired by J.J. Vallarino Jr., a leading Panamanian businessman who is CEO of *Banco Disa*, *Coca Cola* and *Panama Beer*. Señor Vallarino arranged for the U.S. group to be hosted by another business group at a cocktail party. He also arranged a series of meetings with prominent government officials, including Vice President Billy Ford. Vice President Ford commented to the group that now that all the crooks were out of government, this was the time to invest in Panama.

After looking over a citrus company, a cement company, a ceramics company, the telephone company, the electric company and the national airline, *Air Panama*, the U.S. group decided to join together with a like group of Panamanians and bid for *Air Panama's* assets and routes. Prominent in the Panamanian investors' group was J.J. Vallarino Jr.; his son, J.J. Vallarino III, who was to become the major stockholder as well as president and CEO of the *Panama Air* venture, his daughter, Susan; and another son, Miguel.

Summer 1990: The *Government of Panama (GOP)* puts out bids for the privatization of *Air Panama*.

General Sumner recruits Rollin King, founder of *Southwest Airlines*, and *Sunet, Hellison & Eickner (SH&E)*, the airline consultant company, to examine the potential of *Air Panama* and develop a feasibility study and a proposal for the *GOP*.

Panama's Comptroller, Dr. Rubén (Chinchoro) Carles, a former Director of *Banco Disa*, is appointed as the responsible cabinet member for privatization.

Fall 1990: The Americans and Panamanians submit a proposal (bid) to the *GOP*. Three other competitors also submit bids. *COPA*, the only Panamanian airline controlled by the Motta family, is one of the bidders.

1990-1991: *PAI* wins the bid, but the *GOP* rebids the proposal four times. *PAI* wins each successive bid.

November 7, 1991: The *GOP* finally signs a contract with *PAI*. The contract states that the *GOP* must pay debts, clear creditors and clear the routes once held by the old airline, *Air Panama*. *PAI* names the new airline *Panama Air International*. The airline is renamed because it is a completely separate entity from *Air Panama*. *PAI* is designated the national airline of Panama.

Spring 1992: *PAI* settles debts with *Air Panama* employees. This was a major problem for the *GOP*, and *PAI* undertook this even though it was the responsibility of the *GOP*. *PAI* Board felt we would be able to start flying sooner if we could help the *GOP* clear up some of the problems it faced in privatizing *Air Panama*.

1992-1993: *PAI* opens offices in Panama City and Bogota, Colombia. It opens a counter at the Panama City (Tocumen) airport.

1992-1993: *GOP* fails to clear routes or turn over assets to *PAI*. This leaves *PAI* unable to operate since it was to be given the routes held in the name of *Air Panama*.

1992-1993: At this point, *PAI* had completed all of the actions required of it under the contract. *PAI* could not fly until the government had cleared all of the routes. The *GOP* failed to even initiate any action to clear the routes to the United States. These routes are critical to the success of the airline because of the revenue these routes generate.

1992-1993: *GOP* gives *PAI* routes for Lima, Peru, and Santiago, Chile, to the Costa Rican airline, *LACSA*, even though these routes were included in the contract between the *GOP* and *PAI*. They were paid for by the investors in *PAI* and were routes belonging to the national airline of Panama. *LACSA* is a part of the *TACA* group formed by five Central American airlines. *COPA* is part of that group.

1992-1993: Repeated conferences with Rubén Carles, the Controller, and Mario Galindo, Minister of Hacienda y Tesoro attempting to get the *GOP* to perform on the contract. Mario Galindo's law firm represents the Motta family, controllers of the *COPA* airline.

February-March 1993: *COPA* initiates a public campaign to discredit *PAI*.

1993: *GOP* clears some of the routes contractually given to *PAI*. The Director of Civil Aviation, Zózimo Guardia, refuses to grant permits for the routes to *PAI*.

1993: Comptroller Rubén Carles and Vice-Minister Fábrega send a letter to *PAI* stating that the *GOP* has not performed on its contract with *PAI*. *PAI* has still been unable to fly because of the *GOP*'s failure to clear the routes.

1993: *PAI* initiates joint venture operations with *AVENSA* and *Mexicana* airlines in an attempt to start flying routes where permits to *PAI* have not been acquired by the *GOP*. These joint ventures are approved by the *GOP*.

Spring 1993: Zózimo Guardia, with four hired hands, physically terminates joint venture operations at Tocumen without justification. They forcibly:

- Closed the *PAI* counter at Tocumen
- Boarded the *PAI/AVENSA* aircraft bound for Caracas, Venezuela
- Tore up the passengers' tickets
- Removed the passengers from our aircraft and put them on a *COPA* flight to Bogota

Neither *AVENSA* nor *Mexicana* are part of the TACA group.

April 1993: A summit meeting between *GOP* ministers and *PAI* Board of Directors (including General Sumner). *GOP* approves an amendment to *PAI*'s contract. The amendment was written because *PAI* could not perform on the contract since the *GOP* had not cleared the routes, paid creditors in several countries, or turned over the assets of the old airline to *PAI*. A tape recording was made of the meeting by Ruben Carles.

Spring 1993: The President and the Cabinet of the *GOP* approve the amendment to the contract.

May 1993: Minutes of a subsequent meeting are sent to *PAI*. The minutes, signed by Carles' assistants, state that Carles proposes to cancel the contract and pay off the investors. Carles will not release the tape recordings of the previous meeting to *PAI*. *PAI* wants to fly, not to be paid off.

June 1993: Although everyone else in the Cabinet has approved the amendment to the original contract, Carles refuses to sign and insists that the contract be terminated and *PAI* investors be paid for their investment. (However, investors realize that chances are slim that they will ever be paid. They also realize, since Carles so stated, that they would never be paid for a good portion of the money invested.)

July 1993: Carles publicly states that the *PAI* investors will not be paid off in entirety. He falsely claims that the Board of Directors are requesting an honorarium of \$1,000,000. This is completely false but is being spread around the country, to the American Ambassador as well as to influential Panamanians.

June 1993: *GOP* audit of *PAI* accounts takes place. Carles asks for this and *PAI* gladly opens its books. The audit is taking place because Carles wants the *GOP* to cancel the *PAI* contract. *PAI* wants to fly.

July 1993: The *GOP* decides to give *PAI*'s Bogota route to *COPA* before the government decides whether or not to terminate the contract with *PAI*.

July 1993: Zózimo Guardia goes against the decision of the Ministers and declares through the media in Panama that he has decided to give *PAI*'s Bogota route to *COPA* before the Panamanian government has settled with *PAI*. He states that it is in the interest of the country to do this.

July 1-7, 1993: General Sumner and his wife, Frances Fernandes, go to Panama for a *PAI* Board meeting and attempt to sort out the facts in the situation. It becomes clear that Panama has no conflict-of-interest controls; and that many in the government are tied to businesses and people who may be attempting to stop *PAI*.

The Mottas have interests in practically all facets of the Panamanian economy. They are in electronics, free-zone shops based in Colon, airlines, etc. People in the airport free-zone